Chapter 3
A Framework for Corporate Strategies and Modes of Development in a Changing Environment

ABSTRACT

This chapter focuses mainly on corporate growth strategies and growth modes. The main question is how to create and develop a sustainable competitive advantage for the whole company. The traditional strategic management approach is to consider two different levels of analysis: business and corporate strategy. In fact, both of them represent today the basis for obtaining sustained competitive advantage in particular in dynamic and turbulent markets. A firm competing in domestic and international contexts is often faced with making a choice between three corporate strategies: diversification, specialization, and vertical integration. One of the fundamental problems facing the process of strategy formulation in a company is that the number of potential strategic options is unlimited and in some cases extremely complex. This chapter considers that there are mainly three viable alternatives to implement a growth strategy: internal development (often called "organic growth"), external growth, and cooperation (alliances).

INTRODUCTION

This chapter focuses mainly on corporate growth strategies and growth modes. The main question is how to create and develop a sustainable competitive advantage for the whole company? By the 1980s change, and the pace of change, had become a key issue for management in most organizations.

The traditional strategic management approach is to consider two different levels of analysis: business and corporate strategy. In fact, both of them represent today the basis for obtaining sustained competitive advantage in particular in dynamic and turbulent markets. The duration of competitive advantage is unpredictable.

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Business strategy is the way a business competes in a particular business sector. The strategic decisions made in business level strategy are related to pricing, marketing and manufacturing efficiency. Corporate strategy is concerned with how companies create value across different businesses. It is corporate strategy that should guide key decisions in the businesses and coordinate their business strategies. But, for most corporate enterprises, the corporate strategy is simply the sum of business strategies, with some broad objectives and statement of business mission. But corporate-level strategic processes enable dynamic strategic repositioning of enterprise and reconfiguration of corporate resources and competencies (see chapter 2). A firm competing in domestic and international contexts is often faced with making a choice between three corporate strategies: diversification, specialization and vertical integration.

One of fundamental problems facing the process of strategy formulation in a company is that the number of potential strategic options is unlimited and in some cases extremely complex. We consider in this chapter that there are mainly three viable alternatives to implement a growth strategy: internal development (often called "organic growth"), external growth and cooperation (alliances).

The first section first analyzes the different rationales for each type of growth strategies. It provides theoretical constructs and gives some examples. Section 2 focuses on modes of development. Section 3 covers strategic fit issues in relation with organizational planning.

CORPORATE STRATEGY CHALLENGES

Corporate strategy involves decisions that are made regarding the direction of an organization as a whole. At corporate level, three main strategies can be considered: diversification, vertical integration and specialization (focus).

Diversification Strategy

Definition

For several decades, diversification has been a highly popular strategy among large and growing industrial firms in the United States, Europe and Asia (Hoskisson & Hitt, 1990). Rumelt (1974), Hoskisson and Hitt (1990) state that diversification is a corporate level strategy. Diversification strategies are used by firms to expand their operations by adding markets (enter new geographical areas and countries) or activities (develop new products and services) to the existing business. Internationalization strategy is therefore a kind of geographical diversification. As international strategies are so important, chapter 4 proposes a theoretical framework to analyze them (see chapter 4). In economic terms, "diversification takes place when the firm expands to make and sell products or a product line having no market interaction (technically, having zero cross price-elasticity) with each of the firm's other products." (Rumelt, 1982, p. 363).

Organizations are defined first by their primary economic activity and by their strategic business units where products/services and operations are performed. Several industrial classifications (former SCI, NAICS) give information about the level of diversification of groups (Box 1). As Rumelt (1982) mentions it, this "traditional approach" to measuring an enterprise's diversification relies on the SIC definitions of "product class' (in particular using 4-digit "industry' codes)." (p. 352). But it is necessary to define business as product/market combinations and not just as the result of SCI codes and industrial classifications.